

INTERNAL REVENUE SERVICE  
TE/GE Division  
Director, Exempt Organizations

DEPARTMENT OF THE TREASURY  
1100 Commerce Street  
Dallas, Texas 75242-0000

Date: AUG 08 2006

COPY

Employer Identification Number:  
[REDACTED]

Person to Contact:  
[REDACTED]

Contact Telephone Number:  
[REDACTED]

In Reply, Re:  
[REDACTED]

[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]

We have considered your application for recognition of exemption from Federal income tax under section 501(c)(7) of the Internal Revenue Code.

You were incorporated on [REDACTED] in [REDACTED]. Your Articles of Incorporation indicate that you were formed as the successor to an unincorporated association. Your purposes are to:

- develop and cultivate an interest in aquatic and kindred sports;
- promote social intercourse among the members;
- acquire such rights and property, real and personal, and such boats, launches, equipment and other paraphernalia as shall be fitting and necessary for its use as a boat club;
- do all and everything within the scope and purview of a fully equipped modern boat club.

You have two classes of members. Class "A" members are stockholders and presently pay an initiation fee of \$[REDACTED] upon joining, \$[REDACTED] per year annual dues and \$[REDACTED] per foot for winter boat storage. Class "B" members pay no initiation fee. However, their dues are \$[REDACTED] per year and \$[REDACTED] per foot for winter boat storage.

Your activities include weekly boat safety classes for members. These classes are conducted by the U.S. Coast Guard. You also conduct river rafting exercises and weekend boating cruises for your members.

You maintain a club house and marina for the use of your members.

You indicate that prior to [REDACTED], you operated a restaurant and cocktail lounge facility as part of your club house. However, at that time, the Board of Directors voted to lease out the property because it wasn't economically viable for you to operate the facilities.

COPY



Beginning [REDACTED], you leased a portion of your facilities to [REDACTED] for the operation of a restaurant and cocktail lounge facility open to members and the general public.

The rents received under this arrangement constituted a substantial portion of your revenues:

Year	Rental Income	Total Revenues	%
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Section 501(c)(7) of the Code provides for exemption from Federal income tax of clubs organized and operated exclusively for pleasure, recreation, and other non-profitable purposes, if no part of their net earnings inures to the benefit of any private shareholder.

Section 1.501(c)(7)-1(a) of the Income Tax Regulations provides that in general this exemption extends to social and recreation clubs that are supported solely by membership fees, dues, and assessments.

Section 1.501(c)(7)-1(b) of the regulations provides that a club which engages in business, such as making its social and recreational facilities available to the general public or by selling real estate, timber, or other products, is not organized and operated exclusively for pleasure, recreation, and other non-profitable purposes.

In Revenue Ruling 69-220, 1969-1 C.B. 154, a social club that received a substantial portion of its income from the rental of property and used the income to defray operating expenses and to improve and expand its facilities was denied exemption under section 501(c)(7) of the Code.

You are like the organization described in Revenue Ruling 69-220 because you receive a substantial amount of your revenues from the rental of property and use the income from these activities to improve and expand your facilities and services to members.

The guidelines set forth in Revenue Procedure 71-17, 1971-1 C.B. 683 indicate that no more than 5% of an organization's total gross receipts may come from nonmember sources. Public Law 94-568 enacted October 20, 1976 raised this limit to 15%.

You agree that the rental income causes you to exceed the 15% gross receipt test. However, it is your position that regardless of whether the property was operated by you or leased the net result remains the same, which is to foster safe boating and maintain the integrity of the [REDACTED] waterfront from erosion.

Based on the information presented, we have concluded that you don't meet the requirements for exemption as a social club described in section 501(c)(7) of the Code.

Accordingly, it is held that you are not entitled to exemption from Federal income tax as an organization described in section 501(c)(7) of the Internal Revenue Code, and you are required to file Federal Income Tax Returns using Form 1120.

If you do not agree with these conclusions, you may, within 30 days from the date of this letter, file in duplicate a brief of the facts, law and argument that clearly sets forth your position. If you desire an oral discussion of the issue, please indicate this in your protest. The enclosed Publication 892 gives instructions for filing a protest.

If you do not file a protest with this office within 30 days of the date of this report or letter, this proposed determination will become final.

If you agree with these conclusions or do not wish to file a written protest, please sign and return the enclosed Form 6018.

If you have any questions, please contact the person whose name and telephone number are shown at the beginning of this letter.

Sincerely,

*Steven T. Miller*

Steven T. Miller  
Director, Exempt Organizations

Enclosures:

Publication 892  
Form 6018